

Unveiling the credit nature of Buy-Now-Pay-Later: The effect of disclosure messages

Abstract

As a relatively new payment mechanism, consumers' understanding of Buy-Now-Pay-Later (BNPL) varies significantly. BNPL is often marketed as a scheme that allows consumers to spread the cost over an interest-free period. However, the fact that BNPL is a credit product, which may involve late charges, is not prominently disclosed by most online retailers. Consequently, many consumers perceive BNPL as merely a convenient way to shop, aligning with their lifestyle, and tend to use it more than they can truly afford.

This lack of clarity regarding the nature of BNPL can lead to overspending beyond one's affordability, jeopardizing financial well-being. As more consumers struggle to repay their BNPL debt, the issue becomes increasingly significant. The Consumer Financial Protection Bureau in the United States reports that the delinquency rates among BNPL users are higher than those of non-users. Other academic studies also show that increased BNPL usage is associated with greater money management stress and, consequently, lower consumer well-being. The growth and widespread usage of BNPL, therefore, pose a broader societal challenge.

In this project, four behavioural studies were conducted to examine whether including a disclosure statement could enhance consumers' understanding of BNPL and influence their intention to use it. This project also explored the effects of different disclosure statement formats on consumers' decision regarding BNPL usage. The results demonstrate that participants who were shown a BNPL disclosure message were less likely to choose BNPL as their payment method.

Implementing regulations that enforce clear pre-contractual disclosures about the credit nature of BNPL could help inform consumers, particularly those unaware of its credit implications. Such measures could reduce overreliance on BNPL and promote more responsible usage. The findings of this project provide valuable insights for financial regulators as they introduce regulation on BNPL offerings, helping to protect consumers and ensure the sustainability of BNPL as a financial product.

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